

ADAIR COUNTY SANITARY LANDFILL AND RECYCLING CENTER

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENT AND
SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

Adair County Sanitary Landfill and Recycling Center

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2
Management's Discussion and Analysis	4
Financial Statement	<u>Exhibit</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets	A 5
Notes to Financial Statement	7
Comments and Recommendations	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with Government Auditing Standards	16
Schedule of Findings	18

Adair County Sanitary Landfill and Recycling Center

Officials

<u>Name</u>	<u>Title</u>	<u>Representing</u>
John Twombly	Chair	Adair County
Larry Vandewater	Vice-Chair	Adair County
Tom Billheimer	Member	City of Casey
Joan Wallace	Member	City of Menlo
Linda Shaffer	Member	City of Fontanelle
James O'Keeffe	Member	City of Stuart
Joe Herrick	Member	City of Greenfield
Cecilia McGinnis	Member	City of Orient
Scott Yarrington	Member	City of Bridgewater
Delmar Frisbie	Director	

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Members of the Adair County
Sanitary Landfill and Recycling Center

We have audited the accompanying financial statement of Adair County Sanitary Landfill and Recycling Center as of and for the year ended June 30, 2011. This financial statement is the responsibility of the Center's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement is prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of Adair County Sanitary Landfill and Recycling Center as of June 30, 2011 and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 30, 2012 on our consideration of Adair County Sanitary Landfill and Recycling Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

To the Members of the Adair County
Sanitary Landfill and Recycling Center

Management's Discussion and Analysis on pages 4 through 4c is not a required part of the financial statement, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Gamerwall, Ben, Kynan & Co. P.C.

Atlantic, Iowa
January 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Adair County Sanitary Landfill and Recycling Center (ACSL&RC) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities of the ACSL&RC is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the financial statement, which follows.

2011 FINANCIAL HIGHLIGHTS

Operating receipts increased 4%, or approximately \$25,035, from fiscal 2010 to fiscal 2011. This is due largely to an increase in gate receipts with the economy picking up and more C&D being taken in at the gate.

Operating disbursements decreased 60%, or approximately \$602,547, from fiscal 2010 to fiscal 2011. This was due mainly to the landfill transitioning from using the cell for solid waste to transferring it to Metro Waste in Perry, and in 2010 the Center closed a cell.

Cash basis net assets increased 16%, or approximately \$67,560, from June 30, 2010 to June 30, 2011.

USING THIS ANNUAL REPORT

The ACSL&RC has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the cash basis of accounting.

This discussion and analysis is intended to serve as an introduction to the financial statement. The annual report consists of the financial statement and other information, as follows:

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the ACSL&RC's financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information of ACSL&RC's operating receipts and disbursements, non-operating receipts and disbursements and whether the ACSL&RC's cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

FINANCIAL ANALYSIS OF THE CENTER

Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets

The purpose of the statement is to present the receipts received by the ACSL&RC and the disbursements paid by the ACSL&RC, both operating and non-operating. The statement also presents a fiscal snapshot of the ACSL&RC's cash balance at year end. Over time, readers of the financial statement are able to determine the ACSL&RC's cash basis financial position by analyzing the increase and decrease in cash basis net assets.

Operating receipts are received for gate fees from accepting solid waste and assessments from the members of the ACSL&RC. Operating disbursements are disbursements paid to operate the landfill. Non-operating receipts and disbursements are for interest on investments, land rent, equipment purchases, construction costs, loan proceeds and principal and interest payments on loans and installment purchase agreements. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2011 and June 30, 2010 is presented below:

	Year ended June 30,	
	2011	2010
Operating receipts:		
Grant receipts	\$ --	\$ 29,500
Gate and recycling fees	465,446	415,436
County contributions	40,836	34,030
City contributions	71,472	59,560
Miscellaneous	5,963	20,156
Total operating receipts	<u>583,717</u>	<u>558,682</u>
Operating disbursements:		
Salaries and benefits	119,354	136,646
Other	286,223	871,478
Total operating disbursements	<u>405,577</u>	<u>1,008,124</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>178,140</u>	<u>(449,442)</u>
Non-operating receipts (disbursements):		
Interest on investments	5,559	10,879
Land rent	23,828	23,828
Proceeds from sale of equipment	2,000	15,000
Loan proceeds	--	914,991
Equipment purchased	(3,118)	(120,571)
Interest on line of credit	--	(7,280)
Principal on installment purchase agreements	(39,523)	(151,085)
Interest on installment purchase agreements	(103)	(9,762)
Principal on notes payable	(64,858)	(612,644)
Interest on notes payable	(34,365)	(16,251)
Net non-operating receipts (disbursements)	<u>(110,580)</u>	<u>47,105</u>
Net change in cash basis net assets	67,560	(402,337)
Cash basis net assets beginning of year	<u>432,292</u>	<u>834,629</u>
Cash basis net assets end of year	<u>\$ 499,852</u>	<u>\$ 432,292</u>

	Year ended June 30,	
	2011	2010
Cash Basis Net Assets		
Restricted for:		
Closure	\$ 110,878	\$ 92,747
Postclosure care	364,982	330,740
Tonnage fees retained	<u>101</u>	<u>1,144</u>
Total restricted net assets	475,961	424,631
Unrestricted	<u>23,891</u>	<u>7,661</u>
Total cash basis net assets	<u>\$ 499,852</u>	<u>\$ 432,292</u>

In fiscal 2011, operating receipts increased \$25,035, or 4%, from fiscal 2010. The increase was primarily from an increase in gate receipts. Operating disbursements decreased \$602,547, or 60%, from fiscal year 2010. The decrease was primarily due to a cell being closed in 2010 that had substantial costs associated with it.

The largest portion of the ACSL&RC's cash basis net assets, is restricted for closure and postclosure care. State and federal laws and regulations require the ACSL&RC to place a final cover on the landfill site and perform certain maintenance and monitoring functions at the landfill site for a minimum of thirty years after closure. The remaining cash basis net assets, are unrestricted cash basis net assets that can be used to meet the ACSL&RC's obligations as they come due. Restricted cash basis net assets increased \$51,330, or 12%, during the year. This money will be used to close the cell, and for engineering fees after the cell is closed. Unrestricted cash basis net assets increased by \$16,230 for the year.

LONG-TERM DEBT

During the year ended June 30, 2011, the ACSL&RC paid down their debt by \$104,381 or 11%. Currently, the center is working to combine their debt and refinance it at a lower rate.

At June 30, 2011, the total outstanding balance was \$827,510. Due to the price of fuel rising so much, the Center has plans to purchase a semi and trailer to haul larger loads and save in fuel costs.

ECONOMIC FACTORS

ACSL&RC's cash basis financial position increased during the current fiscal year. The current condition of the economy in the state continues to be a concern for ACSL&RC officials. Some of the realities that may potentially become challenges for the ACSL&RC to meet are:

- Facilities require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated, presenting an on-going challenge to maintain up-to-date technology at a reasonable cost.
- Annual deposits required to be made to closure and postclosure care accounts are based on constantly changing cost estimates.
- Fuel prices continue to impact the expenses for the Center's recycling routes.
- Declining interest rates affect interest revenue.

- Due to the economy, the market for recyclables declined causing the Center to lose a significant amount of money handling recyclables.
- In August, 2009, the Center started transferring its waste to the Metro Park West facility. And in fiscal year 2011, the cell will be full, so the Center is planning on closing the existing cell in fiscal year 2011-12.
- A variance with the DNR has been granted to give the landfill an additional 5 years to complete the financial assurance requirements for post closure

The ACSL&RC anticipates the current fiscal year will have increases in costs due to the closure of the cell, and increased cost of fuel to transport the waste. Then all the cells will be closed and the landfill will operate solely as a transfer station, therefore not having any large expenditures for closure in the future.

CONTACTING THE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the ACSL&RC's finances and to show the ACSL&RC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact ACSL&RC at 1645 State Highway #25, Menlo, IA 50164, by calling 641-743-8343 or at aclr@wildblue.net on the internet.

Adair County Sanitary Landfill and Recycling Center

Statement of Cash Receipts, Disbursements and
Changes in Cash Basis Net Assets

Year ended June 30, 2011

Operating receipts:	
Gate and recycling fees	\$ 465,446
County contributions	40,836
City contributions	71,472
Miscellaneous	<u>5,963</u>
Total operating receipts	<u>583,717</u>
Operating disbursements:	
Salaries and benefits	119,354
Training and travel	3,958
Insurance	16,265
Maintenance and repair	44,883
Utilities	11,423
Rock	3,063
Household hazard facility contract	1,206
Fuel	41,603
Advertising and supplies	14,537
Professional services	57,321
Tonnage fees	9,845
Disposal costs	69,776
Miscellaneous	<u>12,343</u>
Total operating disbursements	<u>405,577</u>
Excess of operating receipts over operating disbursements	<u>178,140</u>
Non-operating receipts (disbursements):	
Interest on investments	5,559
Land rent	23,828
Proceeds from sale of equipment	2,000
Equipment purchased	(3,118)
Principal on installment purchase agreements	(39,523)
Interest on installment purchase agreements	(103)
Principal on notes payable	(64,858)
Interest on notes payable	<u>(34,365)</u>
Net non-operating receipts (disbursements)	<u>(110,580)</u>
Net change in cash basis net assets	67,560
Cash basis net assets beginning of year	<u>432,292</u>
Cash basis net assets end of year	<u>\$ 499,852</u>

(continued next page)

Adair County Sanitary Landfill and Recycling Center

Statement of Cash Receipts, Disbursements and
Changes in Cash Basis Net Assets - Continued

Year ended June 30, 2011

Cash Basis Net Assets

Restricted for:

Closure	\$ 110,878
Postclosure care	364,982
Tonnage fees retained	<u>101</u>
Total restricted net assets	475,961
Unrestricted	<u>23,891</u>
Total cash basis net assets	<u>\$ 499,852</u>

See notes to financial statement.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Adair County Sanitary Landfill and Recycling Center was formed in 1973 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Center is to develop, operate and maintain solid waste and recycling facilities in Adair County on behalf of the units of government which are members of the Center.

The governing body of the Center is composed of one representative from each of the seven member cities and two representatives from Adair County. The member cities are: Orient, Stuart, Bridgewater, Casey, Fontanelle, Greenfield and Menlo. The commissioners are appointed by the participating governmental subdivisions and each has one vote for each one hundred population, except for Adair County whose votes are to be shared by two members.

A. Reporting Entity

For financial reporting purposes, the Adair County Sanitary Landfill and Recycling Center has included all funds, organizations, agencies, boards, commissions and authorities. The Center has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Center are such that exclusion would cause the Center's financial statement to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Center. The Center has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the Center are organized as an Enterprise Fund. Enterprise Funds are used to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Basis of Accounting

The Adair County Sanitary Landfill and Recycling Center maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Center is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items, including the estimated payables for closure and postclosure care. Accordingly, the financial statement does not present the financial position and results of operations of the Center in accordance with U.S. generally accepted accounting principles.

D. Net Assets

Funds set aside for payment of closure and postclosure care are classified as restricted.

NOTE 2 - CASH AND INVESTMENTS

The Center's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Center; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Center had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement 40.

Interest rate risk. The Center's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Center.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2011

NOTE 3 - PENSION AND RETIREMENT BENEFITS

The Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50% (5.38% effective July 1, 2011) of their annual salary and the Center is required to contribute 6.95% (8.07% effective July 1, 2011) of annual covered salary. Contribution requirements are established by state statute. The Center's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were approximately \$6,000, \$6,700, and \$6,500, respectively, equal to the required contributions for each year.

NOTE 4 - CLOSURE AND POSTCLOSURE CARE COSTS

To comply with federal and state regulations, the Center is required to complete a monitoring system plan and a closure/postclosure plan to provide funding necessary to effect closure and postclosure, including the proper monitoring and care of the landfill after closure. Environmental Protection Agency (EPA) requirements have established closure and thirty-year care requirements for all municipal solid waste landfills that receive waste after October 9, 1993. State governments are primarily responsible for implementation and enforcement of those requirements and have been given flexibility to tailor requirements to accommodate local conditions that exist. The effect of the EPA requirement is to commit landfill owners to perform certain closing functions and postclosure monitoring functions as a condition for the right to operate the landfill in the current period. The EPA requirements provide that when a landfill stops accepting waste, it must be covered with a minimum of twenty-four inches of earth to keep liquid away from the buried waste. Once the landfill is closed, the owner is responsible for maintaining the final cover, monitoring ground water and methane gas, and collecting and treating leachate (the liquid that drains out of waste) for thirty years.

Governmental Accounting Standards Board Statement No. 18 requires landfill owners to estimate total landfill closure and postclosure care costs and recognize a portion of these costs each year based on the percentage of estimated total landfill capacity used that period. Estimated total costs consist of four components: (1) the cost of equipment and facilities used in postclosure monitoring and care, (2) the cost of final cover (material and labor), (3) the cost of monitoring the landfill during the postclosure period and (4) the cost of any environmental cleanup required after closure. Estimated total cost is based on the cost to purchase those services and equipment currently and is required to be updated annually due to the potential for changes due to inflation or deflation, technology, or applicable laws or regulations.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2011

NOTE 4 - CLOSURE AND POSTCLOSURE CARE COSTS - Continued

These costs for the Adair County Sanitary Landfill and Recycling Center have been estimated to be \$221,365 for closure and \$738,198 for postclosure, for a total of \$959,563 as of June 30, 2011. The Center opened up a new cell during fiscal year 2008 and is accepting only construction and demolition waste. The estimated remaining life of the landfill is 1 year. The Center became a transfer station for all other waste in August, 2009. Subsequent to year end, the DNR gave notice that the landfill will have to stop accepting waste as of April 1, 2012.

Chapter 455B.306(9)(b) of the Code of Iowa requires permit holders of municipal solid waste landfills to maintain separate closure and postclosure care accounts to accumulate resources for the payment of closure and postclosure care costs. The Adair County Sanitary Landfill and Recycling Center has begun to accumulate resources to fund these costs and, at June 30, 2011, assets of \$475,860 are restricted for these purposes, of which \$100,878 is for closure and \$364,982 is for postclosure care. They are reported as restricted cash basis net assets on the Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets.

Also, pursuant to Chapter 567-113.14 of the Iowa Administrative Code (IAC), since the estimated closure and postclosure care costs are not fully funded, the Center is required to demonstrate financial assurance for the unfunded costs. The Center has adopted the dedicated fund financial assurance mechanism. Under this mechanism, the Center must certify the following to the Iowa Department of Natural Resources:

- The fund is dedicated by local government statute as a reserve fund.
- Payments into the fund are made annually over a pay-in period of ten years or the permitted life of the landfill, whichever is shorter.
- Annual deposits to the fund are determined by the following formula:

$$NP = \frac{CE - CB}{Y}$$

NP = next payment

CE = total required financial assurance

CB = current balance of the fund

Y = number of years remaining in the pay-in period

Chapter 567-113.14(8) of the IAC allows a government to choose the dedicated fund mechanism to demonstrate financial assurance and use the accounts established to satisfy the closure and postclosure care account requirements. Accordingly, the Center is not required to establish closure and postclosure accounts in addition to the accounts established to comply with the dedicated fund financial assurance mechanism.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2011

NOTE 5 - TRANSFER STATION CLOSURE CARE

To comply with state regulations, the Center is required to complete a closure plan detailing how the transfer station will comply with proper disposal of all solid waste and litter at the site, cleaning the transfer station building, including the rinsing of all surfaces which have come in contact with solid waste or washwater, cleaning of all solid waste transport vehicles which will remain on site, including the rinsing of all surfaces which have come in contact with solid waste and the removal and proper management of all washwater in the washwater management system.

To comply with state regulations, the Center is required to maintain a closure account as financial assurance for the closure care costs. The effect of the state requirement is to commit landfill owners to perform certain closing functions as a condition for the right to operate the transfer station.

The total transfer station closure care costs for the Center as of June 30, 2011 have been estimated at approximately \$10,000. The balance has been restricted and is fully funded at June 30, 2011.

NOTE 6 - SOLID WASTE TONNAGE FEES RETAINED

The Center has established an account for restricting and using solid waste tonnage fees retained by the Center in accordance with Chapter 455B.310 of the Code of Iowa. At June 30, 2011, the unspent tonnage fees retained by the Center and restricted for the required purposes totaled \$101.

NOTE 7 - RISK MANAGEMENT

The Center is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each members' annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2011

NOTE 7 - RISK MANAGEMENT - Continued

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Center's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Center's contribution to the Pool for the year ended June 30, 2011 was \$16,070.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Center also carries commercial insurance purchased from another insurer for coverage associated with the employee blanket bond in the amount of \$250,000. The Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2011

NOTE 8 - LONG-TERM DEBT

During the year ended June 30, 2007, the Center entered into an agreement with Ziegler, Inc. to purchase a drum roller costing \$21,400.

The agreement for the drum roller required a \$2,140 down payment at signing and five annual installments of \$4,663 beginning June 18, 2008. The installment payments included interest at 6.25% per annum. The installment contract was paid off during the year ended June 30, 2011.

During the year ended June 30, 2009, the Center entered into an agreement with Caterpillar Financial to purchase a wheel loader costing \$93,016. The agreement requires thirty-six monthly installments of \$2,584 beginning June 18, 2009. The agreement is a 0% interest note. At June 30, 2011, the balance of the agreement was \$23,254.

During the year ended June 30, 2010, the Center entered into an agreement with Iowa Finance Authority to build a leachate holding area to improve water quality, costing \$551,613. The dirt that was removed was used to close a landfill cell. The agreement requires annual principal payments ranging from \$21,000 to \$37,000 and semi-annual interest payments of 3% beginning September 23, 2009. At June 30, 2011, the balance of the bond was \$508,613.

During the year ended June 30, 2010, the Center entered into an agreement with Community First National Bank to refinance two of their lease agreements and to purchase equipment. The agreement requires quarterly installments of \$15,391 beginning February 26, 2010. The installment payments include interest at 4.89% per annum. At June 30, 2011 the balance of the agreement was \$295,643.

During the year ended June 30, 2011, the Center paid \$39,523 under the lease agreements and \$64,858 under the note agreements.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2011

NOTE 8 - LONG-TERM DEBT - Continued

Scheduled principal and interest repayments on long-term debt are as follows:

Year ending June 30,	Long-Term Debt		Capital Leases		Total
	Principal	Interest	Principal	Interest	
2012	\$ 69,400	\$ 29,945	\$ 23,254	\$ --	\$ 122,599
2013	72,760	26,925	--	--	99,685
2014	76,239	23,756	--	--	99,995
2015	79,840	20,435	--	--	100,275
2016	82,572	16,953	--	--	99,525
2017-2021	172,832	54,071	--	--	226,903
2022-2026	160,000	30,900	--	--	190,900
2027-2029	90,613	6,540	--	--	97,153
	<u>\$ 804,256</u>	<u>\$ 209,525</u>	<u>\$ 23,254</u>	<u>\$ --</u>	<u>\$1,037,035</u>

NOTE 9 - DESIGNATED FUNDS

The Center maintains designated funds in separate savings accounts which are identified for specific purposes, as follows:

Purpose	Amount
Recycling	\$ 90
Equipment	193
Total	<u>\$ 283</u>

NOTE 10 - COMPENSATED ABSENCES

Center employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. Accumulated sick leave is paid at 30%, not to exceed 90 days, upon retirement. These accumulations are not recognized as disbursements by the Center until used or paid. The Center's approximate liability for accumulated sick leave and earned vacation at June 30, 2011 was \$4,063 and \$807, respectively. This liability has been computed based on rates of pay in effect At June 30, 2011.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2011

NOTE 11 - CONTINGENCIES

Other Post Employment Benefits (OPEB)

Plan Description: As required by state law, the Center offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Center employees, and the retirees must pay a health insurance premium equal to that charged for current employees. There are 4 active employees and no retirees currently covered by the plan.

Potential for Liability: The Center currently finances a retiree benefit plan on a pay-as-you-go basis. A review of the Center's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists.

Subsequent Event

The Center has evaluated all subsequent events through January 30, 2012, the date the financial statement was available to be issued.

The Center was notified they are to stop accepting waste, close all open cells, and have only a transfer station by April 1, 2012. This is expected to be an undue hardship to close the cell and fund the closure/postclosure cost. The Center applied for and received a variance to Iowa Administrative Code 567 Chapter 113.14(8)"h" and 113.14(b)"i"(3) which allows the Center until June 30, 2016 to fully fund the local government dedicated fund for postclosure costs. With the variance that has been granted, the Center will be able to use existing postclosure funds to pay for the closure of the landfill, and build its postclosure funds to the required level.

* * *

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of a Financial Statement Performed in Accordance with
Government Auditing Standards

To the Members of the Adair County
Sanitary Landfill and Recycling Center

We have audited the accompanying financial statement of Adair County Sanitary Landfill and Recycling Center as of and for the year ended June 30, 2011, and have issued our report thereon dated January 30, 2012. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adair County Sanitary Landfill and Recycling Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of Adair County Sanitary Landfill and Recycling Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Adair County Sanitary Landfill and Recycling Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Center's financial statements will not be prevented or detected and corrected on a timely basis.

To the Members of the Adair County
Sanitary Landfill and Recycling Center

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 11-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Adair County Sanitary Landfill and Recycling Center's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Center's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Adair County Sanitary Landfill and Recycling Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Center's responses, we did not audit Adair County Sanitary Landfill and Recycling Center's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Adair County Sanitary Landfill and Recycling Center and other parties to whom the Center may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gumewald, Ben, Kuhn & W. P. C.

Atlantic, Iowa
January 30, 2012

Adair County Sanitary Landfill and Recycling Center

Schedule of Findings

Year ended June 30, 2011

PART I - FINDINGS RELATED TO THE FINANCIAL STATEMENT

INTERNAL CONTROL DEFICIENCIES

11-I-A Segregation of Duties: A limited number of people have the primary responsibility for many of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Center. This is a common deficiency among small Organizations.

Recommendation: We recognize that it may not be economically feasible for the Center to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Center to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

11-I-B Financial Reporting: Loan principal and interest payments for the Center's commercial real estate, loans, and installment purchase agreements were not properly reflected on the Center's general ledger on the cash basis of accounting. The payments were recorded in liability accounts so the activity was not reflected as receipts or disbursements.

Recommendation: Since the Center reports on the cash basis of accounting, all receipts and disbursements should be appropriately recorded on the Center's general ledger.

Response: In the future we will use cash basis of accounting at year end instead of accrual.

Conclusion: Response accepted.

* * *

Adair County Sanitary Landfill and Recycling Center

Schedule of Findings

Year ended June 30, 2011

PART I - FINDINGS RELATED TO THE FINANCIAL STATEMENT - Continued

INSTANCES OF NON-COMPLIANCE

No matters were reported.

* * *

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

11-II-A Questionable Disbursements: No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

11-II-B Travel Expense: No disbursements of Center money for travel expenses of spouses of Center officials or employees were noted.

11-II-C Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

11-II-D Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Center's investment policy were noted.

11-II-E Solid Waste Fees Retained: No instances of non-compliance with the solid waste fees used or retained in accordance with provisions of Chapter 455B.310 of the Code of Iowa were noted.

Adair County Sanitary Landfill and Recycling Center

Schedule of Findings

Year ended June 30, 2011

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING - Continued

11-II-F Financial Assurance: The Center has elected to demonstrate financial assurance for closure and postclosure care by establishing a local government dedicated fund as provided in Chapter 567-113.14(6) of the Iowa Administrative Code. The calculation is made as follows:

	<u>Closure Total</u>	<u>Postclosure</u>
Total estimated costs for closure and postclosure care	\$ 221,365	\$ 738,198
Less: Balance of funds held in the local dedicated fund at June 30, 2010	<u>82,747</u> 138,618	<u>330,740</u> 407,458
Divided by the number of years remaining in the pay-in period at beginning of year*	÷ <u>1.75</u>	÷ <u>1.75</u>
Required payment into the local dedicated fund for the year ended June 30, 2011	79,210	232,833
Balance of funds held in the local dedicated fund at June 30, 2010	<u>82,747</u>	<u>330,740</u>
Required balance to be held in the local dedicated fund at June 30, 2011	<u>\$ 161,957</u>	<u>\$ 563,573</u>
Amount Center has restricted for closure and postclosure care at June 30, 2011	<u>\$ 100,878</u>	<u>\$ 364,982</u>

Iowa Department of Natural Resources rules and regulations require deposits into the closure and postclosure care accounts be made at least yearly, and the deposits shall be made within 30 days of the close of each fiscal year. The required deposit was not made.

The total of the Center's restricted funds did not exceed the required balance. The closure account is deficient by \$61,079. The postclosure account is deficient by \$198,591.

* The Center changed to become a transfer station in August, 2009, which extended the estimated life of the landfill.

Adair County Sanitary Landfill and Recycling Center

Schedule of Findings

Year ended June 30, 2011

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING -
Continued

Recommendation: The Center should determine the balance needed for its financial assurance and have it funded within 30 days of the close of the fiscal year.

Response: At the end of the fiscal year, the Center attempted to fund the deposit from operations. This was limited by the lack of funds. Subsequent to year end, the Center received a five year variance from the normal funding requirements for the postclosure costs. With this variance, the Center will be able to use existing postclosure funds to pay for the closure costs, and build the postclosure funds to the required level.

Conclusion: Response acknowledged. The Center should determine its funding needs and have funding ready before needed.

* * *